


price cap, cross-subsidization would still be a threat -- with improper cost shifting between interstate and intrastate jurisdictions -- so long as the states do not also have pure price cap regimes simultaneously in place.

The fundamental barrier to the adoption of pure price caps lies in the fact that regulators cannot ignore the company's profits and losses. If profits are persistently high, regulators would be under strong pressure to raise the X-Factor as a way to lower earnings. Conversely, low profit levels or losses would bring pressure to adjust the formula to enable higher earnings. Consequently, both federal and state regulators face irresistible pressure to include in their price cap regimes "safety valves" of one sort or another -- sharing obligations, low-end adjustments, provisions for modifying X-Factors -- the same safety valves that open the door to gaming and the threat of anticompetitive cross-subsidization.

Although the Commission's price cap regime represents a constructive step forward from traditional rate-of-return regulation, price caps by themselves are insufficient to ensure against anticompetitive cross-subsidization because they cannot mimic faithfully the outcomes of competitive markets. Even with price caps in place, the Commission must continue its oversight of cost assignments between less competitive and more competitive markets, until effective competition has been achieved in both.

I declare under penalty of perjury under the laws of the United States of America
that the foregoing is true and correct.

Executed on December 2, 1995


Leland L. Johnson

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EDUCATION

Ph.D. Economics, 1957, Yale University
M.A. Economics, 1953, University of Oregon
B.S. Business Administration, 1952, University of Oregon

EMPLOYMENT

1993-present--Consultant specializing in telecommunications economics. Retired from The RAND Corporation.

September 1979-March 1993--Senior Economist, The RAND Corporation, Santa Monica, California.

1978-1979--Associate Administrator, Policy Analysis and Development, National Telecommunications and Information Administration, U.S. Department of Commerce, Washington, D.C.

1968-1978--Manager, Communications Policy Program, The RAND Corporation, Santa Monica, California.

1967-1968--Director of Research, President's Task Force on Communications Policy, U.S. Department of State, Washington, D.C.

1957-1967--Economist, The RAND Corporation, Santa Monica, California.

1956-1957--Instructor, Yale University, New Haven, Connecticut.

1967--Lecturer, International Trade, UCLA.

1965-1966--Visiting Professor, International Trade and Economic Growth, Claremont Graduate School.

1958-1959--Lecturer, (Statistics for Economics and Business), California State College at Northridge.

Telecommunications Policy. Dr. Johnson has evaluated the prospects for direct satellite broadcasting, the use of telephone company facilities, and other means, as competitive alternatives to cable television. He earlier dealt with issues of (a) regulating international telecommunications in response to a growing competitive market structure, (b) maintaining universal domestic telephone service in response to pressures to increase rates for local service, and (c) the role of compatibility standards in telecommunications competition and innovation. As Associate Administrator for Policy Analysis at NTIA in 1978-1979, Dr. Johnson's responsibilities included recruiting staff for a research and analysis office of about 40 staff members. His office focused on issues of (a) restricting government regulation in the domestic telephone and broadcasting fields, (b) expanding competitive pressures in the international communications industry, (c) possibilities for making more effective use of the radio spectrum, and (d) drafting legislation for the Administration and pursuing other policy options in response to problems of protecting individual privacy posed by the rapid growth of computer-based information systems. As Director of Research, President's Task Force on Communications Policy, he directed the staff activities and preparation of the Final Report (the "Rostow" report) delivered to the President in 1968. The report and accompanying staff papers addressed a wide range of issues in the telephone, cable, and broadcasting fields, with numerous specific recommendations for national policy.

PROFESSIONAL MEMBERSHIPS/HONORS

Chairman, Board of Directors, Telecommunications Policy Research Conference, Washington, D.C., 1992.

Chairman, Organizing Committee, Seventeenth Annual Telecommunications Policy Research Conference, Airlie House, VA, 1989.

Board of Directors, Annual Telecommunications Policy Research Conference, 1989-1992.

Board of Directors, International Institute for Communications 1971-1978.

Advisory Board, Committee for Economic Development, 1975.

Telecommunications Panel, American Society of International Law, 1973-1975.

Telecommunications Committee, the Twentieth Century Fund, 1969-1970.

American Economics Association Sterling Fellowship, Yale University, 1955.

PUBLICATIONS

Book

Toward Competition in Cable Television (MIT Press and AEI Press) 1994.

Journal Articles

"The Potential of Direct Broadcast Satellites for the United States, *Space Policy*, (with Deborah Castleman). November 1992.

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"Competition, Cross Subsidies, and Residential Telephone Access" in *Policy Research in Telecommunications*, Vincent-Mosco (ed.), 1984.

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"Problems of Regulating Specialized Telecommunications Common Carriers," in *Refocusing Government Communications Policy*, Aspen Institute for Humanistic Studies, Washington, D.C., 1976. San Francisco, December 14, 1976.

"Distributional Effects of Regulation," in *Rate of Return Regulation*, Federal Communications Commission Future Planning Conference, July 1976.

"Government Regulation and Technological Advance," in *RAND 25th Anniversary Volume*, The RAND Corporation. 1973

"Behavior of the Firm Under Regulatory Constraint: A Reassessment," *American Economic Review*, May 1973.

"Technical Advance and Market Structure in Domestic Telecommunications," *The American Economic Review*, May 1970.

"New Technology: Its Effect on Use and Management of the Radio Spectrum," *Washington University Law Quarterly*. Fall 1968.

"New Communications Technologies and National Security," *Adelphi Papers*, The Institute for Strategic Studies, March 1968.

"Joint Cost and Price Discrimination: The Case of Communications Satellites," *University of Chicago Journal of Business*, September 1961

"Behavior of the Firm Under Regulatory Constraint," *American Economic Review*, December 1962, (coauthored).

RAND Publications

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Entry by Telephone Companies into Cable Television: Regulation, Competition, and Public Policy, MR-102-RC, 1993."

Common Carrier Video Delivery by Telephone Companies, R-4166-MF/RL, 1992

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Communications Satellites and Telephone Rates: Problems of Government Regulation, RM-2845-NASA, October 1961.

BRIEFINGS, SEMINARS AND INTERVIEWS SINCE JANUARY 1989

"Price Cap Regulation," RAND Board of Trustees, Santa Monica, April 1989

"Price Cap vs. Rate of Return Regulation," Center for Advanced Study in Telecommunications, Ohio State University, Columbus, June 1989.

"Pricing, Competition, and Regulation in the International Telephone Industry," International Telecommunications Symposium, International Center for Telecommunications Management, University of Nebraska, Omaha, June 1989.

"Future of Broadband Services to the Home," Annenberg School of Communications, USC, Los Angeles, February 1990.

"Deregulation of AT&T," radio interview, Money Radio Network, (20 affiliates nationwide), March 1990.

"Pricing and Regulation in the International Telephone Industry," Seminars in Regulatory Economics, Tucson, Arizona, April 1990.

"Residential Broadband Service by Telephone Companies," ICA/SuperComm '90 Convention, Atlanta, Georgia, April 1990.

"Price Reductions by AT&T," radio interview, Money Radio Network, June 1990.

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"IBNs and Direct Broadcast Satellites: Competitors to Cable TV"? American Enterprise Institute, Washington, D.C., October 1990.

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"Regulatory Constraints on the Bell Companies," radio interview, Money Radio Network, October 1990.

"Broadband Services by Telephone Companies. A Competitor to Cable TV"? Executive Briefing, Fiber in the Local Loop sponsored by Lightwave Journal, Stanford, Calif., December 1990.

"Policy Issues in Telecommunications," panel discussion, Government Accounting Office, Washington, D.C., February 1991.

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"Price Cap Regulation: Opportunities and Problems," Telecommunications Reports, Conference, Washington, D.C., May 1991.

"The Potential for Competition with Cable Television," Jones Intercable Conference, Vail, Colorado, August 1992.

"The Future of Wireless Cable," Annual Meeting Wireless Cable Television Association, Orlando, Florida, August 1992.

"Technical Standards for High Definition Television: Comments," Telecommunications Policy Conference, Solomons, Maryland, September 1992.

"Fiber Perspectives: Where Are We Going? Panel Discussion, Supercom '93, Atlanta, Georgia, April 1993.

"The RBOC's Video Dialtone Proposals," Panelist National Association of State Utility Consumer Advocates Conference, St. Louis, MO, June 1993.

"Competitors to Cable Television" Seminar, American Enterprise Institute, Washington, D.C., October 1993.

"Competition in the Cable Television Industry" Seminar, Yale University School of Management, New Haven, Conn., November 1993.

"Cable Entry into Telephony, Comments," Telecommunications Policy Conference, Solomons, Maryland, October 1994.

ORAL TESTIMONY

"Evaluation of the Beacon Initiative," before the Canadian Radio-Television Commission, June 12, 1995.

"Application by Oceanic Communications to Provide Private Line Service in Hawaii," Hawaiian Public Utilities Commission, March 13, 1995.

"Telephone Company Entry into Cable Television," Before Senate Subcommittee on Communications, Senate Bill S-2800," printed in S. Hrg. 101-886, July 24, 1990.

"Incentive Regulation of Arizona Public Service" before the Arizona Corporation, September 1984.

"Government Regulation of Cable Television," before Subcommittee on Communications, Committee on Interstate and Foreign Commerce, U.S. House of Representatives, printed in Cable Television Oversight--Part I, 94th Cong., 2nd Sess.

"Copyright and Distant Signal Importation by Cable Television Systems," before the Commissioners of the Federal Communications Commission, meeting en banc, 1970.

CONSULTANCIES

Cox Enterprises, Inc.
Adephia Communications Corp.
Great Lakes Cable Coalition
Atlantic Cable Coalition
California Cable Television Association
New Jersey Cable Television Association
National Cable Television Association
Canadian Cable Television Association
Time Warner, Oceanic Communication
Cablevision Industries
Comcast Corp.
Wometco Cable
AGT Limited
AT&T
Southwestern Bell Mobile Systems
Cellular Telecommunications Industry Association
Interstate Natural Gas Pipeline Association
Ford Foundation
Arizona Corporation Commission

AFFIDAVITS, DECLARATIONS AND PREFILED TESTIMONY

New Jersey Bell, application to provide video dialtone service in Dover, New Jersey, W-P-C 6840, Affidavit, February 12, 1993 (on behalf of New Jersey Cable Television Association).

New Jersey Bell, application to provide video dialtone service in Dover and Florham Park area, W-P-C 6838, 6840, Declaration, September 29, 1993 (on behalf of New Jersey Cable Television Association).

Pacific Bell, applications to provide video dialtone service in four metropolitan areas, W-P-C 6913, 6914, 6915, 6916, Affidavit, February 7, 1994; Reply Affidavit March 10, 1994, Reply Declaration, January 5, 1995; Second Reply Declaration, January 19, 1995, Declaration April 7, 1995 (on behalf of California Cable Television Association).

Ameritech, applications to provide video dialtone service in five states, W-P-C 6926, 6927, 6928, 6929, 6930, Affidavit, March 10, 1994; Reply Declaration, June 28, 1994 (on behalf of the cable television associations of the five states).

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November 1995

CERTIFICATE OF SERVICE


I, Staci M. Pittman, do hereby certify that on this 1st day of March, 1996, copies of the foregoing **“Reply Comments of the National Cable Television Association, Inc.”** were delivered by first-class, postage pre-paid mail upon the attached list:

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